



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 11/24/1999

GAIN Report #IN9082

India

Hotel, Restaurant & Institutional - Food Service Sector Report 1999

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Report Highlights:

The opportunity for U.S. food companies in India's food service market is small but growing. The traditional Indian hotel and restaurant business is undergoing a transformation as high and middle-income Indian consumers are seeking variety in their choice of food.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1], IN

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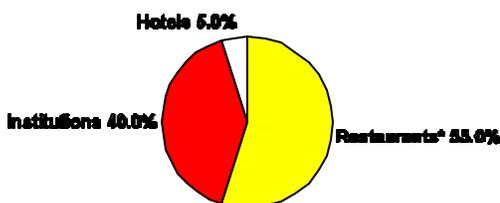
I. Market Summary

The opportunity for U.S. food companies in India's food service market is small but growing. Sales by Indian food service companies totaled approximately \$6 billion in fiscal year 1998. Restaurants account for approximately 55 percent of Indian food service sales. Indian consumers spent only 2.4 percent of their food expenditure in hotels and restaurants in fiscal year 1996. American consumers, by comparison, spent 46 percent of their food expenditure on away-from-home meals.

There are approximately 22,000 registered restaurants in India which have sales of over \$15,000 per month. In addition, there are more than 100,000 roadside restaurants (dhabas) selling their prepared foods in small stalls in cities and on highways. There are 1,568 registered hotels in India. The institutional sector consists of hospitals, prisons, defense establishments, schools, company canteens, railways and airlines.

Indian Food Service Sub-Sector Sales FY 1998

100 percent = \$6 billion



* Excludes roadside restaurants

Source: Literature search, Interviews, PSi analysis

India imported approximately \$2.1 billion worth of food in fiscal year 1998. Indian food service companies buy approximately two percent of India's total food imports (less than 10 percent of U.S. food exports to India). However, India's food imports are growing more than 37 percent per year (from fiscal year 1994 to 1998). India's edible oil imports grew approximately 78 percent per year from fiscal year 1994 to 1998 and were 37 percent of the total food imports in fiscal year 1998. Almost half of India's food imports are of agricultural produce such as cereals, fresh vegetables, fruits and nuts. Processed consumer food imports into India are low.

A number of factors are driving increased food service sales:

Growth in Personal Income - The increase in buying power of Indian consumers is driving growth in the food service sector. India's per capita income has increased by over 20 percent from 1992 to 1996. However in absolute terms, India's

per capita income is low (approximately \$350 per annum) and income distribution is highly skewed. Just 2.4 percent of Indian households earn 50 percent of India's GDP. The top 3.9 million Indian households have an average household income of approximately \$35,000 per annum.

Shrinking Household Size - The size of Indian households has declined over the past few years (from 5.9 people per household in 1990 to 5.5 in 1998). The total number of households in India has increased by less than 3 percent per year from 1990 to 1998; however, the number of households in middle, upper and high-income categories has grown by more than 12 percent annually. Approximately 23.6 million households have been added to the high, upper and middle-income segments of Indian consumers from 1990 to 1998. These households have higher disposable income per member and have a greater propensity to spend on food.

Urbanization - Most high-income Indian consumers live in urban India. Approximately 50 percent of high, upper and middle-income group Indian consumer households reside in urban areas. Over one third of urban Indian consumers reside in less than one percent of the total number of cities in India. The percentage of Indians living in cities has increased from 19.9 percent in 1971 to 27 percent in 1997 and is expected to increase to 30.5 percent in 2000.

Growing Number of Women in the Workforce - The number of dual income households where both husband and wife work is increasing. Over 16 percent of the population of Indian women work full-time and spend most of their time away from home. Due to these changes many Indian consumers are opting for meals away from home.

Menu Diversification - High-income Indian consumers are seeking variety in their choice of food. Urban Indian consumers are aware of various international cuisine (e.g. Continental, Chinese, Mexican, Italian, Thai, and Japanese) and an increasing number are willing to try new foods. Middle class and affluent Indian consumers prefer snack foods and are driving growth in the number of fast food chains.

The traditional Indian hotel and restaurant business is undergoing a transformation. A growing number of specialty restaurants, fast food outlets, home delivery and take-away restaurants have opened in the last few years. A number of foreign restaurant chains (e.g. Domino's, Pizza Hut, Pizza Express, McDonalds, TGIF, KFC and Baskin Robbins) have started operations in India and have achieved some success.

The following is a summary of advantages and challenges facing U.S. food products in India:

Advantages	Challenges
Growing popularity of American culture and food. A number of American restaurant chains (e.g. Domino's, Pizza Hut, McDonalds, TGIF, KFC) have already entered the Indian market.	Multinational food service companies in India are sourcing food ingredients and raw materials locally.
With the new Exim Policy of 1999, a large number of food products can be imported (which were previously restricted).	Low incomes and high duties make imported food unaffordable for most Indian consumers. Non-tariff barriers also exist (e.g. arbitrary and stringent quality norms).
A limited variety of quality food and beverage products are available in the Indian market.	Competition from cheap local substitutes.
Foreign food ingredients and processed food manufacturers have already entered the Indian market.	Labeling and certification requirements of the Indian government are strict, and obtaining a statutory approval is a long and difficult process.
A growing segment of Indian consumers is becoming more demanding and is increasingly willing to pay for better service and quality.	A large majority of Indian consumers prefer traditional style and ethnic cuisine in restaurants.

II. Road Map for Market Entry

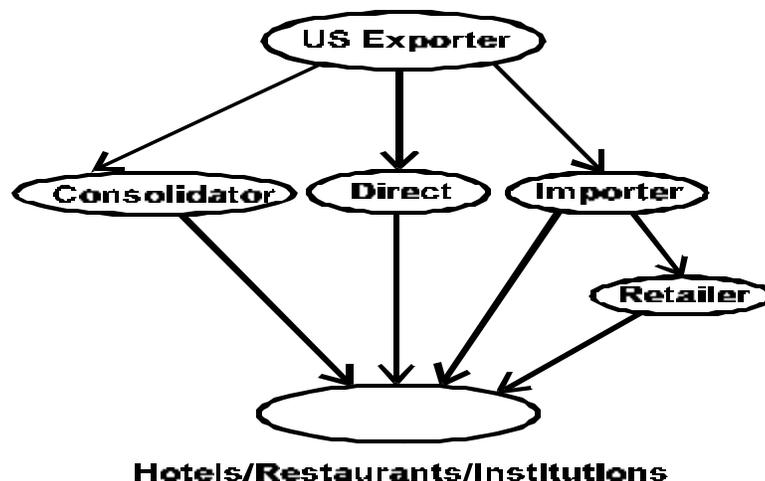
Entry Strategy

U.S. food companies should evaluate their options before entering the Indian food service market. Small U.S. food companies should identify U.S. consolidators that are exporting food products to the Indian market. U.S. exporters of branded foods should directly export to premium hotels and restaurants or appoint agents for importing in each region of India. The importing agent should be knowledgeable about the U.S. food company's product range. In selecting agents the U.S. exporter should check the financial strength of Indian agents and incorporate clear payment terms into any distribution agreement. To gain firm commitment, the U.S. exporter should ensure that the selected agent has a limited range of other activities. Large U.S. food companies can enter into strategic alliances with food service chains. These U.S. food companies may develop local manufacturing partners for supplying raw material to food service chains in India, and export food ingredients either to the local partner or directly to food service outlets.

Distribution Channels

Large hotels and restaurants (e.g., specialty restaurants, foreign fast food chains) use imported processed food and food ingredients. However, most food ingredients and processed food inputs are available in India. Major foreign companies manufacturing food ingredients (e.g. Bush Boake Allen, IFF) already have offices in India.

Distribution of Imported Food in India To Food Service Buyers



Source: Interviews

Hotels

Hotels procure imported products through several channels. Most Indian hotel food buyers use consolidators to source imported food. Consolidators are companies (generally based overseas) that procure products from several manufacturers and supply an assortment of items to hotels in India. Hotels find this arrangement more convenient as they typically require relatively small quantities of numerous food items. Due to the high cost of storing food products, hotels do not maintain large inventories and prefer to import small lots more frequently. Exporters typically transport perishables by air and other items by sea in containers. Indian hotel chains maintain regular working relations with a few foreign consolidators. Consolidators used by Indian hotels operate primarily from Singapore, Dubai, New Zealand, Australia, Holland, Germany and England.

Some Indian hotels buy foreign food products from locally-based importers. These importers usually import bulk volumes of foreign food products and sell to hotels, restaurants and retailers. Large hotels also import foreign food products directly from manufacturers on a regular basis.

Hotels generally prefer using foreign consolidators to buy imported foods and foreign processed food inputs. Consolidators typically have a wide range of products and can supply small quantities to hotels. Some hotels buy imported food inputs from locally-based bulk importers, and also buy from the local retail market in case of urgency. Indian importers and local retailers generally stock imported foods that are in regular demand. The Hyatt Regency in Delhi generally buys processed food/food ingredients from foreign consolidators. They also buy chocolates and snack foods from local importers.

Restaurants

Most restaurants in India source domestic raw materials from food processors, agents or distributors. TGIF (the American restaurant chain) has outlets in India which domestically source products such as chicken (from Venky's), spices (from Kancor in Cochin), cheese (from ABC Farms) and vegetables (from Trikaya Farms in Mumbai). McDonalds provides farmers with advice on how to produce the kind of food inputs they require. McDonalds is helping Ooty Farms (a supplier of lettuce) with seed selection, drip irrigation technology and cold transportation and procures mutton from Al-Kabeer (an exporter in Hyderabad). Cremica Industries, a small bakery in Punjab, is supplying bun and bread products to McDonalds. McDonalds has entered into arrangements with many small Indian companies for products such as cheese, sauce and potatoes. McDonalds imports refined oil and flavoring ingredients. Some restaurant chains (e.g. Domino's) procure foreign food ingredients from Indian importers. Other restaurant chains such as Nirula's source imported ingredients directly from overseas manufacturers.

Indian Food Service Company Profiles

Company	Food Sales \$ Million (1998-9)	Outlet Name, (Type & No. of Outlets)	Location	Purchasing Agents
Hyatt Regency	10.5	La Piazza (Italian), TK's (Oriental), Delhi Ka Aangan (Indian), Cafe (Continental), Polo Lounge (Bar), Djinns (Bar)	Delhi	Consolidators, Importers, Direct
Domino's	7.7	Domino's (Fast Food, 30 outlets)	National	Importers
Bristol Hotel	1.1	Palmyra (Coffee shop), Silk Route (Chinese), Zafran (Indian), Hunters Bar	Gurgaon	Importers
Nirula's	NA	Nirula's (Fast Food, 37 outlets)	Regional (North India)	Direct
Rodeo's	0.8	Rodeo's (Mexican, Italian, Continental, Indian; 2 outlets)	Delhi, Gurgaon	Importers
AIIMS	0.5	Hospital (1640 beds)	Delhi	NA

Sub-Sector trends

Hotels

Currently, India attracts approximately 2.5 million tourists annually which is just 0.4 percent of the world's tourist arrivals. Tourist arrivals grew only 0.5 percent in fiscal 1998. Hotel occupancy levels averaged about 60 percent in 1998, which was the lowest in the last five years (the occupancy level in 1995 was over 90 percent). However, the Indian hotel industry is growing and major hotel companies are currently expanding in the premium segment. An increase in Indian budget travelers will drive the long-term growth in the mid-range hotel sector.

Restaurants

There are numerous ethnic groups in India, each having distinct food habits. Indian consumers typically maintain their traditional food habits even after migrating to different parts of the country. In larger cities, some restaurants serve only regional food. Regional fast foods such as dosa, vada, chola bhatura, samosa are also available in multi-cuisine restaurants throughout India.

Foreign mass media has had an impact on the food habits of the Indian consumer. More Indians are frequenting hotels and restaurants than in the past. Restaurant chains are creating awareness about their service and brand. Increasing demand from middle class Indian consumers is expected to drive high growth in value-for-money restaurants.

High income Indian consumers seeking variety in their choice of food represent an important niche market. They are shifting away from traditional Indian food served in luxury restaurants, and are increasingly turning to foreign foods. As a result, specialty and theme restaurants are opening faster than typical luxury restaurants. Specialty restaurants in India serve a focussed menu of Chinese, Italian, Thai or Mexican food. Pubs and independent bars are also becoming popular among high income Indian consumers in India's major metropolitan cities.

The following changes are expected in the restaurant sector:

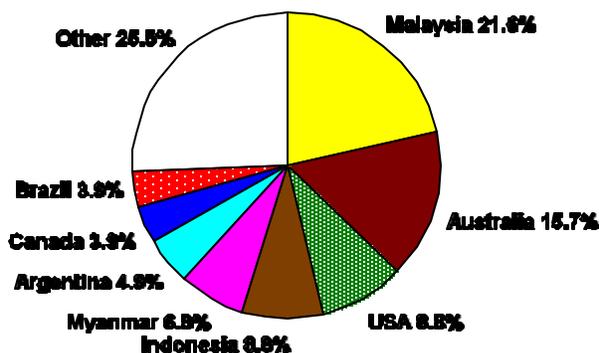
- Shift towards modern fast food restaurants
- Growth of large chain restaurants
- More independent luxury restaurants
- More specialty and theme restaurants
- More restaurant entertainment
- Growth of home delivery and take away food service

III. Competition

The United States is the third largest food exporter to India and accounts for approximately 9 percent of India's food imports. The United States' food aid to India accounts for almost half of total U.S. food exports to India. Although U.S. food exports to India are growing at 9 percent per year (from fiscal year 1994 to 1998), U.S. share of the imported food market in India has declined from 23 percent in fiscal year 1994 to 9 percent in fiscal year 1998. Brazil, Australia, Canada and Argentina are the primary competitors of the United States in India's imported food market, and have taken market share away from U.S. suppliers over the past several years. India also imports fruits and nuts from Iran, Guinea and Tanzania.

Country Competition in the Indian Food Sector: FY 1998

100% = \$2.1 billion



Source: ITPO, PSi analysis

The U.S. faces substantial international competition in the supply of food to India's food service industry. U.S. fruit juice exports to India face competition from Brazil, U.K. and Nepal. India imports preserved vegetables such as tomatoes from the U.S. and Switzerland. U.S. olive exports compete with Spain and Singapore. The United Kingdom is the main competitor for U.S. alcoholic beverage exports to the Indian market. U.S. wine exports compete with larger exporters such as France and the U.K. Processed cheese imports from the U.S. have grown at approximately 111 percent per year and have a 14 percent share of the imported cheese market in India. U.S. cheese exports compete with major exporters such as the Netherlands and New Zealand.

IV. Best Product Prospects

Prospect in the Indian Market	Product
Products that are present in the market	<ul style="list-style-type: none"> * alcoholic beverages * specialty meat preparations * confectionary products * selected vegetables, fruits and nuts * spices * cheese * bakery products * pasta products
Products not present in significant quantities but which have good sales potential	<ul style="list-style-type: none"> * dairy products * processed and semi-processed vegetable preparations * sauces * fruit juice * food additives including cardamom, anise seeds, coriander, spice powders * homogenized preparations such as soups and broths * custard/curry powder
Products that will not do well or cannot be used in the market	<ul style="list-style-type: none"> * beef

A. Products that are present in the market:

The Indian food service sector currently imports very little food. Hotels mainly import products such as alcoholic beverages, meat preparations and confectionary products. Indian food service companies also import foods that are not grown or available domestically, such as certain vegetables, fruits, nuts, spices, cheese and cereal preparations (for bakery products and pasta).

B. Products not present in significant quantities but which have good sales potential:

India's current imports of processed vegetables are low, but have grown at more than 250 percent per year from fiscal year 1994 to 1998. The Indian government has recently allowed the import of many semi-processed vegetable preparations (previously restricted) against a special import license. The Indian government has also allowed unrestricted import of many dairy products and dry food ingredients/mixtures into India.

Growing demand from Indian consumers and hotels is driving growth in liquor imports. Sales of imported alcoholic beverages are growing at more than 50 percent per year despite very high duties.

In accordance with its commitments to the WTO, India is reducing restrictions on imports in a phased manner. In its latest budget, the Indian government has allowed the import of 894 items and special import licenses for another 414 previously restricted items. Growth prospects for products such as processed vegetables, sauces, fruit juice and alcoholic beverages are excellent.

C. Products that will not do well or cannot be used in the market:

Indian Customs restricts the import of bovine meat.

V. Post Contact

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